

VZCZCXRO9656
RR RUEHVK
DE RUEHUL #0812/01 1410623
ZNR UUUUU ZZH
R 210623Z MAY 09
FM AMEMBASSY SEOUL
TO RUEHC/SECSTATE WASHDC 4404
RUCPDO/USDOC WASHDC 8577
RUEATRS/DEPT OF TREASURY WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEAUSA/DEPT OF HHS WASHDC
RHEHNSC/NSC WASHINGTON DC
RUEHKO/AMEMBASSY TOKYO 5995
RUEHBJ/AMEMBASSY BEIJING 5906
RUEHGP/AMEMBASSY SINGAPORE 6587
RUEHHK/AMCONSUL HONG KONG 3870
RUEHSH/AMCONSUL SHENYANG 4412
RUEHVK/AMCONSUL VLADIVOSTOK 1646
RUEHIN/AIT TAIPEI 3391

UNCLAS SECTION 01 OF 03 SEOUL 000812

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ENRG](#) [ETRD](#) [KN](#)

SUBJECT: NORTH KOREA ECONOMIC BRIEFING - MAY 2009

11. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

In This Issue

-- DPRK Finance Minister Kim Announces National Budget to Increase 7 Percent in 2009
-- EU Seizes USD 20 Million in DPRK Deposits Reportedly for Yacht Purchases in Italy
-- Luxury Apartment Built in DPRK Free Economic Zone
-- Number of 3G Mobile Subscribers in the DPRK Reaches 20,000
-- Air Koryo Remains Banned from European Airspace on Safety Concerns
-- DPRK and UNICEF Plan Nutrition Survey on North Koreans
-- ROKG to Continue Malaria Aid to the DPRK
-- ROK NGO Sends Food Aid to Handicapped in the DPRK
-- Japan Tightens Economic Sanctions against the DPRK
-- ROK Tour Agency Plans to Launch Air Freight Service with the DPRK's Air Koryo
-- First Quarter 2009 Inter-Korean Trade Down 23 Percent from 2008

Domestic Economy

12. (SBU) DPRK Finance Minister Kim Announces National Budget to Increase 7 Percent in 2009: North Korea's twelfth session of the Supreme People's Assembly was held on April 9. During the session, North Korea's Finance Minister Kim Wan-su stated that DPRK state revenue for 2009 was expected to grow 5.2 percent from 2008, while expenditures were expected to rise 7 percent from 2008. The Minister did not provide any further details on the budget. According to the ROK Ministry of Unification, the DPRK's 2009 budget is estimated at 482.6 billion DPRK won (USD 3.7 billion). Of the total budget, 15.8 percent is allocated for national defense. (Some South Korean analysts argue that the actual budget for the North's national defense is larger than the official figure.) Other budgetary priorities are the national economy and the development of science, technology and agriculture.

13. (SBU) EU Seizes USD 20 Million in DPRK Deposits Reportedly for Yacht Purchases in Italy: Japan's Jiji Press reported April 5 that the European Union has confiscated millions of dollars of North Korean deposits due to the uncertain source of the capital and the North's violation of UNSC Resolution 1718. The deposits were reportedly intended to fund the purchase of two luxury yachts

produced by an Italian firm (Azimut), costing approximately USD 20 million. Italian financial authorities reportedly suspected the contract and reported it to EU financial authorities.

¶4. (SBU) Luxury Apartment Built in DPRK Free Economic Zone: According to Donga Ilbo on April 24, a new luxury apartment complex priced at USD 40,000 per unit was recently completed in Rajin-Sonbong, a Free Trade Zone in North Korea. The apartments were the first to be built in the DPRK for commercial sale, although the government has allowed trading of existing housing since 2002. Each of the 10 apartment units in the five-story apartment building has an area of 300 square-meters, while a typical luxury apartment in Pyongyang does not exceed 200 square-meters. Residents also have access to hot water and stable electricity since a Chinese company produces electricity in the zone for exclusive use in the apartments. The apartments also have toilets, bathtubs and curtains, all considered scarce luxuries in DPRK. Luxury apartments have usually been bought by high-ranking party officers, but most of the new apartments were snapped up by corporate CEOs who, in an effort to guard against corruption, are required to document their earnings.

¶5. (SBU) Number of 3G Mobile Subscribers in the DPRK Reaches 20,000: Chosun Sinbo, a pro-North Korean newspaper based in Japan, reported April 6 that the number of 3G mobile subscribers in Pyongyang reached 20,000 as of the end of March this year. The telecommunication service is offered to inhabitants of Pyongyang. (Note: European diplomats posted in Pyongyang have indicated that separate systems are used for foreigners and senior DPRK officials). The system offers voice communication and short message service

SEOUL 00000812 002 OF 003

within Pyongyang city, and along Pyongyang (South Pyongyang Province) and Hyangsan (North Pyongan Province) expressway. The subscription fee is set at 50 Euros (USD 68) and a cellular phone set mostly imported from China is sold at 110 - 240 Euros (USD 150 - 327). Camera phones are also being distributed. The service became available on December 15, 2008 operated by Koryo Link, a joint-venture between Orascom Telecom Holdings and North Korea's Chosun Telecom. ROK Ministry of Unification analyses suggest that the number of mobile users is rising as North Korea's imports of mobile phone sets from China have climbed appreciably since December last year (MOU says the value of mobile phone sets imported into the DPRK from China between September 2008 and February 2009 totaled USD 5.23 million).

¶6. (SBU) Air Koryo Remains Banned from European Airspace on Safety Concerns: The European Union Commission announced on April 8 an update of the black-list of airlines banned from flying into the European Union due to safety concerns. North Korea's Air Koryo retained the place it has held on the list since 2006 when the EU first adopted a safety black-list. An EU Commission official was quoted by Yonhap News as saying that the list was based on safety rather than political or diplomatic issues.

Foreign Aid

¶7. (SBU) DPRK and UNICEF Plan Nutrition Survey on North Koreans: Radio Free Asia cited UNICEF's Pyongyang Representative, Gopalan Balagopal, as saying that UNICEF and the DPRK authority plan to conduct a joint nutrition survey on North Korean women of childbearing age and children across the nation. Previously, UNICEF's nutrition survey was conducted every two years from 1998 until 2004 when the survey was suspended due to lack of cooperation by the DPRK authorities.

¶8. (SBU) ROKG to Continue Malaria Aid to the DPRK: The South Korean Government said April 3 that it will continue its annual aid to North Korea to help eradicate malaria, despite tensions over North Korea's rocket launch. The Government will donate USD 1.09 million to WHO to help the DPRK fight malaria. The ROK has been a major donor of malaria aid to the DPRK since 2001, when a significant malaria outbreak in the DPRK. The number of malaria patients reported by North Korea to the WHO in 2000 was roughly 200,000 but

the figure dropped to 23,400 patients in 2008.

¶9. (SBU) ROK NGO Sends Food Aid to Handicapped in the DPRK: Lighthouse Foundation, a South Korean civic group, shipped soy bean and wheat flour, sugar and soy beans to a soy bean milk and bread factory in Pyongyang on April 21. The factory was built to feed handicapped children at Kim Man-yoo Hospital and other handicapped facilities in Pyongyang. No detailed accounting of the aid has been released. The civic group plans to continue to send food aid to North Korean handicapped children.

Foreign Trade and Investment

¶10. (SBU) Japan Tightens Economic Sanctions against the DPRK: ROK media reported April 9 that the Japanese Government has decided to extend economic sanctions against the DPRK by another year. Japan lowered the cap on remittances that must be reported from 30 million Japanese yen (USD 304,320) to 10 million Japanese yen (USD 101,440). It also reduced the amount of money visitors can carry into the DPRK from 1 million Japanese yen (USD 10,144) to 300,000 Japanese yen (USD 3,043). The Diet considered a total export ban, but stopped short of imposing it. Takeo Kawamura, the Japanese Cabinet Secretary announced, "North Korea launched a missile, an act that our country finds intolerable. The additional steps are aimed at closely monitoring the money flow into the DPRK."

Inter-Korean Economic Cooperation

¶11. (SBU) ROK Tour Agency Plans to Launch Air Freight Service with the DPRK's Air Koryo: A South Korea tour agency, I Company,

SEOUL 00000812 003 OF 003

announced on April 23 that it plans to operate air freight and home delivery service to DPRK destinations with North Korea's Air Koryo. The company recently signed a contract with a Chinese firm (name unknown), which will act as Air Koryo's sales agent in South Korea. I Company CEO Lee Sung-won said the service would cut delivery time to DPRK destinations to just 2-4 days from the current 5 days. The business will be jointly launched with Seoul-based Sejung Shipping. Currently, DHL is exclusively handling freight service with North Korea.

¶12. (SBU) First Quarter 2009 Inter-Korean Trade Down 23 Percent from 2008: According to figures released by the Ministry of Unification (MOU) on April 27, inter-Korean trade from January to March 2009 fell 23 percent to USD 323 million. South Korea's exports to the DPRK dropped 39 percent to USD 127 million, and imports fell 6 percent to USD 196 million. The MOU attributes the decline in inter-Korean trade to the frozen ties between the two Koreas. Commercial transactions dropped 21 percent to USD 315 million, while non-commercial transactions fell 58 percent to just USD 7.8 million, as only one humanitarian aid shipment by ROK civic groups was made during this period. Details are in the table and graphs below.

Inter-Korean Trade by Type in January-March 2009
(Source: ROK Ministry of Unification, Unit: USD 1,000)

Commercial Transactions

	South Exports To North	South Imports from North	Total
	-----	-----	-----
General Trading	2,090(-66)	60,148(-36)	62,238(-38)
Processing-on Commission(POC)	29,169(-9)	56,940(-8)	86,109(-8)
KIC Project	86,323(-26)	77,529(69)	163,852(0.6)
Mt.Kumgang Tourism Project	1,073(-95)	610(-81)	1,683(-93)

Other Economic Projects	749(-84)	228(-87)	977(-85)
Light Industry Cooperation	0	0	0
Subtotal	119,404(-37)	195,455(-6)	314,859(-21)

Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
	-----	-----	-----
NGO Aid	7,587(-44)	0	7,587(-44)
Government Aid	0	0	0
Social,Cultural Projects	179(1,179)	0	179(563)
Energy Aid (HFO)	0	0	0
Subtotal	7,766(-58)	0	0
TOTAL	127,170(-39)	195,455(-6)	322,625(-23)

Note: Figures in parenthesis indicate the comparison from the same period of 2008

STANTON